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SIPDIS

DEPARTMENT FOR AF/S (TREGER)  
COMMERCE FOR ROBERT TELCHIN

SIPDIS

E.O. 12958: N/A

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SUBJECT: ZAMBIA JULY 2007 ECONOMIC ROUNDUP

#### 1) SUMMARY

- Malaysian Delegation Makes Plans for Economic Park
- GRZ Finalizing Uranium Mining Policy
- U.S, UK Portfolio Investors Court Zambian Entrepreneurs
- Zambia International Business Advisory Council Meets
- Mining Giants Sign 5-Year Sale Agreement
- High Court Requires ZAMEFA to Pay Withholding Tax
- Zambia to Export Over 300,000 Tons of Maize
- Lusaka Stock Exchange Offers High Returns
- Annual Inflation Rate Increases

#### 2) Malaysian Delegation Makes Plans for Economic Park

A Malaysian business delegation visited Lusaka on July 21, to follow up on the proposed development of a Multi-Facility Economic Zone (MFEZ). Commerce Minister Felix Mutati met with the investors and representatives from the Japanese International Cooperation Agency (JICA), which was responsible for advising the GRZ on the most viable sectors for the MFEZ. Mutati reportedly told them that the GRZ has acquired 200 hectares of land south of Lusaka for this project. The MFEZs are an important part of the GRZ's strategy to attract investment by offering incentives to large investors. This will be the second MFEZ in Zambia after Chambishi, which Chinese companies are establishing on the Copperbelt.

#### 3) GRZ Finalizing Uranium Mining Policy

During President Mwanawasa's July 14 visit to Lumwana Copper Mine, the company's Chief Executive Officer Craig Williams announced that they had found significant deposits of uranium that Lumwana intends to extract. At the same event, Minister of Mines and Mineral Resources Kalombo Mwansa told reporters that preliminary exploration works in Southern Province confirmed "huge deposits" of uranium in Kariba. Mwansa went further to say that the Ministry is finalizing a document on its uranium policy. "This document is currently with the Ministry of Justice and after the process is over, people will be invited to (apply for) licenses for the mining of uranium."

#### 4) U.S, UK Portfolio Investors Court Zambian Entrepreneurs

On July 25, Pangaea/EMI Securities Limited and Renaissance Capital Investments, in conjunction with the Ministry of Commerce, Trade and Industry, hosted a group of leading institutional investors and portfolio managers. The investors, who collectively manage over USD 1 trillion in U.S. and European funds, met with Zambian entrepreneurs and medium-size companies to learn about market challenges and opportunities.

#### 5) Zambia International Business Advisory Council Meets

The Zambia International Business Advisory Council (ZIBAC), a

high-level advisory group of senior executives that advises the President on foreign investment, held its fifth meeting in Livingstone. ZIBAC Chairman, Lord Simon Cairns, criticized the GRZ for not implementing previous commitments, such as liberalizing the telecommunications sector. He also challenged the private sector and foreign cooperating partners to make more effort to track GRZ progress on private sector development and hold the Zambian government accountable. President Mwanawasa had a more positive view of developments to date, and differed with Cairns on the GRZ's progress. However, he also announced that the International Voice Gateway would remain under GRZ parastatal Zamtel's control and would not be liberalized in the near future. In addition, the presentation on the telecommunications sector at the conference was cancelled. The President said that Government was working on implementing several of the resolutions passed in the previous meeting.

#### 6) Mining Giants Sign 5-Year Sale Agreement

Lumwana Mine, Africa's largest new copper mine and Zambia's largest investment, signed a five-year Concentrate and Purchase Agreement with Mopani Copper Mines and Glencore International AG. According to the agreement, Lumwana Mine will prove a minimum of 400,000 dry metric tons of copper concentrates per year to Mopani, which it will use for toll production at the Mufulira smelter, and 200,000 tons to Glencore, which it intends to trade on the global market.

#### 7) High Court Requires ZAMEFA to Pay Withholding Tax

A Zambian High Court has found Metal Fabricators of Zambia Limited (ZAMEFA), a leading producer of copper cathodes, cables, and telecommunications wires, liable for approximately USD 875,000 in unpaid taxes. ZAMEFA, which was acquired by Phelps Dodge in 1996, neglected to pay withholding tax to the Zambia Revenue Authority (ZRA) on behalf of Phelps Dodge for technical assistance between

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1998 and 2004. In 2005, the ZRA took ZAMEFA to the Revenue Appeals Tribunal to recover the money. When ZAMEFA lost the case, it appealed to the High Court of Zambia, on the basis that there is a Double Taxation Treaty between Zambia and the U.S. The High Court dismissed the appeal after the ZRA showed that the Double Tax Treaty of 1945 between the U.S. and the UK, which was extended to Zambia, expired on January 1, 1975.

#### 8) Zambia to Export Over 300,000 tons of Maize

The GRZ has granted export permits of 50,000 metric tons each to the Millers Association of Zambia, Zambia National Farmers Union, Grain Traders Association, and the Food Reserve Agency. According to Agriculture and Co-operatives Minister Ben Kapita, the GRZ exported 234,000 metric tons of maize to the Democratic Republic of Congo, South Africa, and Zimbabwe in 2006. He estimated that the 2007 export figures were likely to be higher. The GRZ introduced a ban on maize exports in March 2005, following severe droughts in some parts of Zambia. This ban has impacted negatively on farmers, who are denied export markets, particularly in surplus years like this current season. Additionally, the restrictions (and GRZ mandated maize prices), cause the maize prices to be artificially low, making it difficult for farmers to earn profits or raise enough money to plan for the subsequent farming seasons.

#### 9) Lusaka Stock Exchange Offers High Returns

The Lusaka Stock Exchange (LuSe) index rose by 2.29 percent in July, ending at 3,058.20 points. Over the past year, the index increased by over 66 percent in kwacha terms and 78 percent in dollar terms. The LuSe was formed in 1993 as part of the GRZ's economic reform program aimed at developing financial and capital markets, attracting foreign portfolio investment, and facilitating the divestiture of Government ownership in parastatals. There are 17 companies trading on the LuSe. Since 1997, the index has increased 1,800 percent.

#### 10) Annual Inflation Rate Increases

The Central Statistical Office (CSO) reported a monthly increase in the Consumer Price Index. According to CSO, the inflation rate for July has risen by 0.1 percent from June, to 11.2 percent. Compared with the same period last year, the annual inflation rate has increased by 2.5 percent from 8.7 percent in July 2006. CSO Acting Director Elfrida Chulu attributed the recent increase (from June 2007) to a rise in the cost of food products. Although this marks a slight increase, inflation rates are dramatically down from their historic average of 32 percent, recorded in the last five years. Zambia's Central Bank Governor, Dr. Caleb Fundanga, is optimistic that the inflation rate will decline because of increased copper production, coupled with high copper prices on the international market, and an increase in food reserves.

MARTINEZ